COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.) CASE NO. 9331

O R D E R

On May 31, 1985, Delta Natural Gas Company, Inc., ("Delta") filed its notice with this Commission requesting authority to adjust its rates for gas service rendered on and after June 20, 1985. The rates proposed by Delta would produce additional annual revenues of approximately $1.6 million, representing an increase of 5.3 percent. As a basis for the requested increase, Delta cited the necessity of an adequate income level to provide sufficiently and properly for all expenses of an efficient operation. In addition, Delta maintained that the additional annual revenues were necessary to earn a return sufficient to market its securities, as well as attract new capital at a reasonable cost.

In order to determine the reasonableness of the requested increase, the Commission, by its Order dated June 13, 1985, suspended the proposed rates and charges for 5 months, beginning on and after June 20, 1985. On October 1, 1985, a public hearing was held in this matter at the Commission's offices in Frankfort, Kentucky, for the purpose of the cross-examination of Delta's witnesses. Motions to intervene in this proceeding were filed by the Consumer Protection Division of the Office of the Attorney General ("AG"), by the City of Corbin, Kentucky, and by the City of Berea, Kentucky. These motions were granted with no other parties requesting intervention. Briefs were filed on October 18, 1985, and responses have been submitted to all requests for information.

This Order addresses the Commission's findings and determinations with regard to its investigation of Delta's revenue requirements and rate design and establishes rates and charges that will produce additional annual revenues of $451,946.

COMMENTARY

Delta operates as a public utility in the distribution of natural gas at the retail level to approximately 28,500 customers in the Kentucky cities and towns of Barbourville, Berea, Burning Springs, Camargo, Clay City, Clearfield, Corbin, Farmers-Midland, Frenchburg, Jeffersonville, Kingston-Terrill, London, Manchester, Middlesboro, Nicholasville, Oneida, Pineville, Salt Lick, Stanton, Williamsburg and Wilmore, as well as the rural areas of the Kentucky counties of Garrard and Leslie.

TEST PERIOD

Delta proposed, and the Commission has accepted, the 12-month period ended March 31, 1985, as the test period for the determination of the reasonableness of the proposed rates. In utilizing the historic test period, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Net Investment Rate Base

In its application, Delta presented a rate base of \$22,483,960. The Commission, in its examination and analysis of Delta's proposal, has accepted this amount with the exception of the determination of working capital. Delta proposed to include in its rate base an allowance for cash working capital of \$729,281 to reflect 1/8 of its proposed test-period operations and maintenance expense. The Commission, in its determination of the allowable amount to be included in Delta's rate base, has utilized Delta's methodology which, when based upon the level of operations and maintenance expense found reasonable herein, results in an allowance for cash working capital of \$704,544.

All other components of the net original cost rate base have been accepted as proposed by Delta. Therefore, the Commission finds Delta's net investment rate base to be as follows:

Consolidated Property	$ 33,502,924
Less Reserve for Depreciation	<10,800,343>
Net Consolidated Property	$ 22,702,581
Working Capital	704,544
Prepayments	40,215
Unamortized Early Retirement, Propane Plant	2,325
Materials and Supplies	664,001
Gas in Storage	178,447
Unamortized Portion of Acquisition Cost of Peoples Gas Company	21,859
Unamortized Portion of Organization and Compensation Study	15,194
Subtotal	$ 24,329,166
Less:	
Accumulated Provision for Deferred Income Taxes	$ 1,626,000
Accumulated Provision for Investment Tax Credits, pre-1971	18,550
Advances for Construction	143,104
Net Book Value of Non-Utility Property	2,342
Normalized Depreciation Adjustment	79,947
Total Deductions	$ 1,869,943
Net Investment Rate Base	$ 22,459,223

Capitalization

Delta proposed test-period end capitalization of $21,601,473. Adhering to its findings in Case No. 8528, Notice of Adjustment of Rates of Delta Natural Gas Company, Inc., the Commission has reduced Delta's total capitalization by $2,342 to reflect the disallowance of capital supporting Delta's non-utility property. Therefore, the Commission has determined Delta's capitalization to be $21,599,131.

REVENUES AND EXPENSES

Delta reported a net operating income of $2,064,738 for the test period. To reflect current and anticipated operating conditions, Delta proposed several adjustments to revenues and expenses resulting in an adjusted net operating income of $2,182,495. The Commission is of the opinion that Delta's proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Normalized Revenues

Delta priced sales volumes at current rates in effect on May 1, 1985, as approved by the Commission in the Order in Case No. 9059-B, Amended Purchased Gas Adjustment Filing of Delta Natural Gas Company, Inc., to arrive at adjusted test year revenues. On-system and off-system transportation revenues were adjusted to reflect expected transportation volumes. Delta provided no computations to show how the expected level of sales was determined. On page eight of his pre-filed testimony, Mr. Jennings said that there are variables beyond Delta's control that affect sales levels, but provided no detailed analysis as to why proposed sales levels were more likely than test year levels. Delta proposed normalized transportation revenues of $640,211; in the absence of more compelling evidence, the Commission has calculated normalized transportation revenues of $866,452, using actual test-year transportation volumes. Based upon the above, the Commission has determined total normalized revenues to be $32,080,720 annually.

Right-of-Way Clearing

Delta reported approximately $71,000 in right-of-way clearing expenses for the test period[1] which was a 317 percent

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1 Response to Item No. 18, p. 9, Commission Request dated May 30, 1985.

increase over the previous year's expense of $17,000.[2] Delta's responses to inquiries as to the reason for such an increase were that only a portion of its right-of-way clearing program was completed in the previous year, which produced the dramatic comparison with the test period.[3] In response to a request at the hearing for additional information, Delta supplied information that showed that the average annual right-of-way clearing expense for the 4 years ending each March 31 prior to the test period was $22,376.[4]

Based on the evidence presented in this case, it is clear that the test-period amount of $71,000 for right-of-way clearing is an abnormal amount in magnitude relative to Delta's historical expenses for right-of-way clearing. Furthermore, it is obvious that cost of right-of-way clearing varies substantially from year to year and, over the 4 years prior to the test period, the annual expense never exceeded $23,615. Delta provided no persuasive evidence that the test-period actual cost is representative of future costs and no alternative amount was proposed by Delta. The Commission is, therefore, of the opinion and finds that the average expense of $22,376 is more representative of an expected on-going cost of service supportable through rates. Therefore,

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2 Ibid.

3 Response to Item No. 9, Commission Request dated July 10, 1985.

4 Item No. 11, data requested at hearing filed October 11, 1985.

the Commission has reduced right-of-way clearing expenses by $48,674 to $22,376 annually for rate-making purposes.

Wages and Salaries

Delta proposed a $91,454 annual increase in salary and wages based on wage rates and the actual number of employees at the end of the test-period. Of the $91,454, $14,408 was actually attributable to employee pensions and benefits.[5]

Delta proposed an additional adjustment of $171,523 annually for merit wage and salary increase scheduled 3 months beyond the test period in July 1985. Of the $171,523, $27,022 was actually attributable to employee pensions and benefits.[6]

Delta did not reflect normal employee turnover in its adjustments,[7] nor did it make corollary adjustments to reflect increased productivity from the July 1985 wage increase of 5 percent, which was 1.27 percent above the 3.73 percent Consumer Price Index-Urban (Unadjusted) ("CPIU") annual increase,[8] nor did it reflect any reduction in total labor force which might result from reduced employee turnover,[9] nor reduction in training costs,

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5 Response to Item No. 16, p. 4, Commission Request dated May 30, 1985.

6 Ibid.

7 Response to Item No. 3, Commission Request dated July 10, 1985.

8 Response to Item No. 5, Commission Request dated July 10, 1985.

9 Transcript of Evidence ("T.E."), October 1, 1985, p. 121.

nor increases in productivity resulting from retaining "merit-worthy" employees.

The Commission is of the opinion that it is inappropriate to project wages and salaries for post test-period wage increases without making corollary adjustments to reflect savings due to productivity increases and incentive pay. However, since the wage increase has gone into effect and results in a known and measurable cost increase, the Commission is of the opinion that it is not unreasonable to include a wage adjustment of 3.73 percent based on the annual increase in the CPIU as of July 1985. Furthermore, the Commission is of the opinion that normal employee turnover should be recognized in the calculation of both the annualization of test-period wages and salaries and the scheduled salary increase of July 1985. Since Delta has not experienced growth in the number of employees due to factors such as plant expansion or unusual projects undertaken during the test period,[10] the Commission is of the opinion that the weighted monthly average of employee salaries and wages stated at test-period end rates is representative and reflects normal employee turnover more accurately than the proposed test-period end number of employees.

The result of restraining wage growth to 3.73 percent reduces Delta's proposed adjustment by approximately $36,704 annually. The result of reflecting normal employee turnover reduces by $27,829 and $1,039 annually the annualization adjustment and merit wage increase, respectively. Therefore, the

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10 T.E., October 1, 1985, p. 121.

Commission has reduced the proposed adjustment to salaries and wages by $65,572 annually and has determined the net adjustment of $155,975 to test-period wages and salaries is appropriate for rate-making purposes.

Pensions and Benefits

Delta reported $477,132 in test-period pension and benefits expense. Delta proposed a reduction of $222,428 in annual costs due to a change in the pension plan occurring during the test period. However, Delta also proposed a separate increase in pensions and benefits based on 18.7 percent of the requested increase in wages, or an increase of $41,430 annually, for a net reduction of $180,998 to pensions and benefits.

The Commission is of the opinion that the adjustment reducing pensions and benefits expense should be included for rate-making purposes, since the change in pension plan occurred during the test period and is known and measurable.[11] The Commission has further reduced Delta's pensions and benefits expense by $12,263, to exclude the cost of additional payroll previously disallowed for rate-making purposes. The aggregate effect of the above adjustments is to reduce test-period pensions and benefits by $193,261 annually.

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11 Kohnle testimony filed June 14, 1985, p. 10.

Rate Case Expenses

Delta reported $52,723 in professional services[12] and $12,500 in customer and public information expense[13] associated with rate case expense in Case No. 9059, An Adjustment of Rates of Delta Natural Gas Company, Inc., and rehearing for total rate case expenses of $65,223 included in the test period. Delta proposed no adjustment for rate case expenses associated with this proceeding. By its Order of September 11, 1984, in Case No. 9059, the Commission allowed $29,435 annually of rate case expenses based on a 2-year amortization, the known amount of rate case expenses then incurred of $58,820.

As of the date of the issuance of the final Order in this case, approximately 14 months have lapsed since the final Order in Case No. 9059, which granted the $29,435 annual recovery of rate case expenses. As of the date of this Order, Delta has recovered through rates approximately $34,340 in rate case expenses. Therefore, the Commission has reduced test-period rate case expenses by the $34,340 that has been recovered through rates and has determined an acceptable amount of rate case expenses to be $30,883 annually.

Depreciation Expense

Delta reported test period depreciation expense of $1,131,299. Delta proposed an adjustment of $79,947 annually to

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12 Revised Exhibits filed October 1, 1985.

13 Response to Item No. 10, Commission Request dated July 10, 1985.

annualize partial depreciation on assets added to plant during the test period to include depreciation on construction work in progress of $25,383 and amortization of propane plant of $900 annually.

Delta uses a 33-year useful life for all assets in distribution and transmission main accounts. Delta stated that, "...the basis for using a 3 percent depreciation rate for distribution and transmission mains is that it has been accepted by the Public Service Commission since Delta's origination and is within the ranges used by other gas utilities in the State of Kentucky."[14] Delta also had not conducted a depreciation study supporting the 3 percent depreciation rate.[15] The 3 percent depreciation rate is used for all classes of pipe and is not a composite rate.[16] When asked if coated steel and plastic pipe generally have longer useful lives than uncoated steel pipe, Delta stated, "...plastic is less durable, more susceptible to damage by outside forces and generally cannot carry the higher pressures that steel pipe can carry." Delta further stated, "...the advantage of coated steel over bare steel is only as good as the coating. Bad coating on improperly cathodically protected pipe

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14 Response to Item No. 1, Commission Request dated July 10, 1985.

15 Ibid.

16 Response to Item No. 2, Commission Request dated August 14, 1985.

can be more damaging to steel pipe than if it were installed uncoated and unprotected, due to the cathodic-anodic reaction from cathodic protection measures."[17] When asked if Delta had conducted tests on replaced pipe which would indicate non-conformity with manufacturers' specifications, Delta replied "...Delta has no test data on pipe replaced due to failure, relative to defects or non-compliance of materials with manufacturers' specifications. There have been no reasons to perform any such testing, because failures have been due to obvious or identifiable reasons, such as damages (contractor, bulldozer, plows, etc.) or otherwise. We are aware of no failures due to defective pipe."[18] Delta further stated, "...Delta has no test data due to failures. There has been replacement of a lot of pipe due to age, deterioration, rust, etc. Also, there has been replacement of plastic pipe in London (PVC pipe), in which the Commission staff was involved."[19] When asked if Delta had to its knowledge acquired or installed any unavoidably marginal systems due to environmental factors, Delta stated that it knew of none.[20]

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17 Response to Item No. 3, Commission Request dated August 14, 1985.

18 Item No. 9 of data requested at hearing filed October 11, 1985.

19 Item No. 10 of data requested at hearing filed October 11, 1985.

20 T.E., October 1, 1985, pp. 85-86.

The Commission agrees with Delta that if the pipe coating is inferior, if cathodic protection is inadequate, if low pressure pipe is used in high pressure pipe's stead, then the useful life of plastic and coated steel pipe would be shortened. In fact, it is highly probable that any pipe installed under those circumstances will have a shorter expected useful life. The Commission does not agree that damage to pipe caused by contractors, bull-dozers, plows, etc., is a factor inherent in the determination of a useful life. The Commission believes such damage repair is more appropriately classified as a maintenance expense, for which Delta has been allowed full recover in this case.

Based on the evidence of record in this case, the Commission is of the opinion that a 40-year useful life for coated steel and plastic pipe is reasonable for rate-making purposes. Based on the expected 40-year useful life, the identifiable coated steel and plastic pipe, the in-service dates of the pipe,[21] and the remaining useful life concept, the Commission has determined a $84,017 reduction in Delta's proposed amount of depreciation expense is appropriate in this case. Therefore, the Commission has reduced test-period depreciation expense by $4,070 to $1,127,229 annually for rate-making purposes. The Commission is of the opinion that a 40-year useful life for plastic and coated steel pipe is a conservative estimate of the useful life of these

21 Item No. 15 of data requested at hearing filed October 11, 1985.

pipes if properly installed. Delta should conduct a thorough depreciation study on the useful lives of all depreciable assets comprising its system and must withstand its burden of proof with regard to depreciation expense in future proceedings.

Income Taxes

Delta proposed income tax expenses based upon a 49.24 percent average tax rate and the net income requested.[22] Since the date of Delta's application, the Commonwealth of Kentucky added an additional block of 7.25 percent to its corporate tax rate schedule on income greater than $250,000 annually. Resultingly, the marginal corporate tax rate changed from 49.24 percent to 49.915 percent. In its calculation of income tax expense, Delta failed to consider the new tax rates, investment tax credits of $53,300,[23] and the current surtax exemption on the first $250,000 of income in the amount of $22,883.

The Commission has determined the test-period adjusted amount of income tax expense to be $1,316,327 based on investment tax credits of $53,300, the surtax exemption of $22,883, the new corporate tax rate schedule and the test-period adjusted amount of revenue and expenses found reasonable herein.

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22 T.E., October 1, 1985, pp. 116-119.

23 Response to Item No. 4, Commission Request dated July 10, 1985.

Interest Synchronization

Delta proposed to reduce the test-period amount of interest expense by $150,558 to $1,048,630 to reflect test-period end-debt levels and proposed cost rates. On the basis of the adjusted capital structure allowed herein, the Commission has determined that Delta's test-period interest expense should be reduced by $188,660 to reflect an allowable interest expense of $1,010,528 annually.

Therefore, the Commission finds Delta's adjusted test-period operations to be as follows:

	Reported Test Period	Pro Forma Adjustments	Adjusted Test Period
Operating Revenues	$30,181,156	$ 1,899,563	$32,080,719
Operating Expenses	28,116,418	1,476,392	29,579,810
Net Operating Income	$ 2,064,738	$ 423,171	$ 2,487,909

CAPITAL STRUCTURE

Mr. John F. Hall, Manager - Rates and Treasury of Delta Natural Gas Company, Inc., recommended Delta's end-of-test-year capital structure which contained 33.67 percent long-term debt, 9.18 percent short-term debt, 5.17 percent preferred stock, 45.95 percent common equity and 6.03 percent deferred investment tax credits.[24] The Commission is of the opinion that a capital structure containing 35.83 percent long-term debt, 9.77 percent short-term debt, 5.5 percent preferred stock, 48.9 percent common

24 Prefiled Testimony of John F. Hall, Exhibit B.

equity is reasonable. These are Delta's end-of-test-year capital ratios, excluding deferred investment tax credits.

Cost of Debt

Mr. Hall recommended a 9.74 percent cost for the fixed rate portion and a 12 percent cost for the variable rate portion of Delta's long-term debt.[25] The cost of the variable rate long-term debt is the test year average prime rate, including unamortized debt expense. Mr. Hall recommended an 11.86 percent cost for Delta's short-term debt.[26] The 11.86 percent cost is the test-year average prime rate. The average prime rate for the 12 months ended September 30, 1985, was 10.5 percent.[27] The Commission is of the opinion that the more current average prime rate is appropriate for determining the cost of Delta's variable rate long-term and short-term debt. The cost of Delta's variable rate long-term debt is 10.64 percent, based on the 10.5 percent average prime rate. Applying costs of 9.74 percent to the fixed rate component and 10.64 percent to the variable rate component produces a 10.18 percent overall cost of long-term debt. The Commission is of the opinion that a 10.18 percent cost of long-term debt and a 10.5 percent cost of short-term debt are reasonable.

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25 Ibid., p. 9.

26 Ibid., p. 10.

27 Federal Reserve Statistical Release.

Mr. Hall also recommended a 10 percent embedded cost for preferred stock.[28] The Commission is of the opinion that this cost is reasonable.

Return on Equity

Mr. Hall recommended a 16 percent return on equity based on a discounted cash flow ("DCF") analysis of Delta.[29] He was of the opinion that Delta required a 16 percent return because it was a small company and faced more risk than the average gas utility. Mr. Hall's DCF calculation included a 10.23 percent adjustment for flotation costs.[30] In its brief, the AG recommended a return on equity in the 13.5 to 14 percent range.[31]

The Commission is of the opinion that Mr. Hall has overstated the investor required return for Delta. Capital costs have generally declined. For instance, the average prime rate for the test year ended March 31, 1985, was 11.86 percent.[32] The average prime rate for the 12 months ended September 30, 1985, was 10.5 percent.[33] At the same time, Delta appears to be in good financial condition. In its last rate case, Case No. 9059, Delta

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[28] Prefiled Testimony of John F. Hall, p. 10.

[29] Ibid.

[30] T.E., October 1, 1985, p. 143.

[31] AG's Brief, p. 1.

[32] Prefiled Testimony of John F. Hall, p. 10.

[33] Federal Reserve Statistical Release.

was granted a 15 percent on equity.[34] In its most recent fiscal year, Delta earned a 15.63 percent return on equity and its market to book ratio is currently about 118 percent.[35] Delta also has a conservative capital structure containing 48.9 percent common equity. Finally, while Mr. Hall adjusted his DCF calculation by 10.23 percent for flotation costs, there were no flotation costs associated with Delta's three most recent stock issuances.[36]

The Commission recognizes that Delta is a small, stand-alone company and that the natural gas industry has become somewhat more risky. Therefore, after considering all the evidence, including current economic conditions, the Commission is of the opinion that a rate of return on common equity in the range of 14.5 to 15.5 percent is fair, just and reasonable. A return on equity in this range will not only allow Delta to attract capital at reasonable costs to insure continued service and provide for necessary expansion to meet future requirements, but also will result in the lowest possible cost to the ratepayer. A return on equity of 15 percent will best meet the above objectives.

Rate of Return Summary

Applying rates of 10.18 percent for long-term debt, 10.5 percent for short-term debt, 10 percent for preferred stock and 15

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34 T.E., October 1, 1985, p. 143.

35 Ibid.

36 Ibid, p. 143.

percent for common equity to the capital structure approved herein produces an overall cost of capital of 12.57 percent. The additional revenue granted herein will provide a rate of return on net investment of 12.09 percent. The Commission finds this overall cost of capital to be fair, just and reasonable.

REVENUE REQUIREMENTS

The Commission has determined that Delta needs additional annual operating income of $213,280 to produce an overall rate of return of 12.57 percent based on the adjusted historical test year. After the provision for taxes, there is an overall revenue deficiency of $425,837, which is the amount of additional revenue granted herein. The net operating income required to allow Delta the opportunity to pay its operating expenses and fixed costs and have a reasonable amount for equity growth is $2,714,561. To achieve this level of operating income, Delta is entitled to increase its annual revenues as follows:

Reasonable Net Operating Income	$2,714,267
Adjusted Net Operating Income	2,487,909
Net Operating Income Deficiency	$ 226,358
Additional Revenues Required	$ 451,946

The additional revenue granted herein will provide a rate of return on the net original cost rate base of 12.09 percent and an overall return on total capitalization of 12.57 percent.

Based on the adjusted test year, the rates and charges in Appendix A are designed to produce gross operating revenues of $32,532,665 which reflects the roll-in of all gas cost adjustments approved in Case No. 9059-B Amended.

Rate Design and Revenue Allocation

Delta proposes no changes in rate design and proposes a proportional increase in all retail rates. Of course, the proportional increase in interruptible rates will result in a larger percentage increase in on-system transportation rates. Because only 5 months have elapsed since Delta's current rate design was implemented, the Commission approves the continued use of this rate design and concurs with its proposed methodology.

OTHER ISSUES

In recent years, a variety of national regulatory program changes and the decline in the world price of oil have affected the natural gas industry. The record in this case indicates that Delta has felt the impact of these changes in its market share and in price determination of natural gas supplies.

During this case, Delta identified large volume customers that have switched to alternate fuels which were less expensive than natural gas, adversely affecting Delta's market share.[37] Information presented during the hearing on the Wiser contract negotiations and how Delta's bargaining power with Wiser is reduced by the price of the alternate supply is an indicator of price determination factors in the natural gas supply market.[38]

The record also indicates that Delta has taken some initiative to regain large volume customers through increasing the variety of services it offers, creation of Delta Resources, Inc.,

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37 Staff Request No. 2, Item 14, July 10, 1985.

38 Transcript of Evidence, October 7, 1985, pp. 91-101.

to offer less expensive gas to large volume users and participation in Special Marketing Programs offered by interstate pipelines.[39] During the hearing Delta also presented information indicating that the changes in the natural gas supply market have allowed them to negotiate lower prices on local supply contracts for small volumes of natural gas.[40]

As the implementation of federal policy changes in the interstate markets continues, the Commission expects Delta to accurately assess the market forces and to use the changing marketplace to obtain the most economical supply of natural gas for <u>all</u> of its customers. The Commission acknowledges Delta's efforts to maintain and to regain large volume users on its system and to renegotiate supply contract prices downward. The Commission encourages Delta to increase these efforts with the goal of benefiting <u>all</u> its ratepayers as the natural gas markets continue to change.

As a growing company, Delta's management must periodically assess its role in the natural gas utility industry nationally and within the state. One aspect of this assessment is a determination by Delta of the amount of influence it may or should have on the determination of national or state regulatory policy on natural gas issues.

The record in this case indicates that Delta chose not to participate in the rulemaking process initiated by the Federal

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39 Staff Request No. 2, Item 14, July 10, 1985.

40 Transcript of Evidence, October 7, 1985, pp. 50-51.

Energy Regulatory Commission in Docket RM85-1-000, Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol.[41] Delta's assessment of its role and its responsibility in influencing national policy in Docket RM85-1-000 may have been appropriate.

In the near future the Commission will establish an administrative case to examine the impact that deregulation of the interstate markets in natural gas will have on the ratepayers and the natural gas utility and production industries in Kentucky. Delta should be prepared to actively participate in the administrative case to examine the emerging issues in the natural gas industry. As the fifth largest retail distributor of natural gas in the state, the Commission expects Delta to fulfill its responsibility to its ratepayers in determining state regulatory policy.

FINDINGS AND ORDERS

The Commission, after examining the evidence of record and being advised, is of the opinion and finds that:

1. The rates and charges proposed by Delta would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2. The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by Delta.

3. The rates of return granted herein are fair, just and reasonable and will provide for the financial obligations of Delta with a reasonable amount remaining for equity growth.

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41 Transcript of Evidence, October 1, 1985, pp. 56-59.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Delta be and they hereby are denied.

2. The rates and charges in Appendix A be and they hereby are fair, just and reasonable rates to be charged by Delta for service rendered on and after November 15, 1985.

3. Delta shall file with the Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 15th day of November, 1985.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

not sitting
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9331 DATED 11/15/85

The following rates and charges are prescribed for the customers served by Delta Natural Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

The following rates and charges have incorporated all changes through PGA Case No. 9059-D.

RATE SCHEDULES

AVAILABILITY

Available for general use by residential, commercial, and industrial customers who purchase their entire natural gas requirements from Delta.

RATES

	Base Rate	plus	Gas Cost Recovery Rate	equals	Total Rate
General Service					
Monthly Customer Charge					$3.95
1 - 1,000 Mcf	$2.0615		$3.7741		$5.8356 per Mcf
1,001 - 5,000 Mcf	1.9167		3.7741		5.6908 per Mcf
5,001 - 10,000 Mcf	1.6125		3.7741		5.3866 per Mcf
Over 10,000 Mcf	1.3085		3.7741		5.0826 per Mcf
Interruptible (2)					
1 - 1,000 Mcf	$1.8079		$3.7741		$5.5820 per Mcf
1,001 - 5,000 Mcf	1.6632		3.7741		5.4373 per Mcf
5,001 - 10,000 Mcf	1.3592		3.7741		5.1333 per Mcf
Over 10,000 Mcf	1.0551		3.7741		4.8292 per Mcf